



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**10-06 – AIRPORT – CONCESSION SERVICES
CONTRACT COMPLIANCE**

PUBLIC REPORT

March 26, 2010

Denny Nester, MBA CPA CIA CGFM CFE CGAP
Interim City Auditor





Office of the City Auditor

Date: March 26, 2010
To: Honorable Mayor and Members of City Council
Re: 10-06 – Airport – Concession Services Contract Compliance

We performed a contract compliance audit of the agreement between the City of Colorado Springs Airport and SSP America. The original agreement, dated December 1, 2004, was entered into with Creative Host Services, Inc. In 2006, Creative Host was bought by SSP America, a multi-national food services company with over 60 years of experience in the travel food and beverage sector; and in 2008, SSP America began operating the concession under its own name. The agreement provides SSP the right, privilege, and obligation to conduct a non-exclusive food and beverage concession at the Colorado Springs Airport to passengers, employees and the general public.

As background information, in early 2006, Airport management conducted a comprehensive review of the internal control policies of the original contractor, Creative Host. The Airport initiated the review after noting several discrepancies in Creative Host's reporting related to revenue management of its concession operation at the Colorado Springs Airport. The review identified several weaknesses in Creative Host's cash handling procedures and also noted errors in daily deposit reports. The Aviation Director alerted City management and requested a full audit be conducted by the City Auditor. In response to the Airport's request, the City Auditor initiated an audit of Creative Host.

The purpose of this audit was to determine whether the terms of the agreement were being followed and the amounts due the Airport were properly calculated and paid in a timely manner.

Our audit was performed in two phases. The first phase was initiated when Creative Host was the primary operator of the concession agreement and included the months of December 2004 through September 2007. During this phase, we identified nine areas of concern. The concerns were brought to the attention of SSP America, which had since bought Creative Host. The CEO of SSP America responded with a personal visit to the Airport to address the concerns raised in the audit and requested time to fix the identified problems. Because of the purchase of Creative Host by SSP America, the City Auditor's Office granted that request and agreed to allow SSP America time to address our concerns.

In 2009, we continued the audit to determine whether SSP America had addressed the concerns identified in our earlier audit work. During this phase, we reviewed 2008 conditions and data and determined most of the concerns identified earlier had been corrected. The improvements made by SSP America, mitigated seven of the nine concerns previously identified.

INTERIM CITY AUDITOR DENNY NESTER, MBA CPA CIA CGFM CFE CGAP

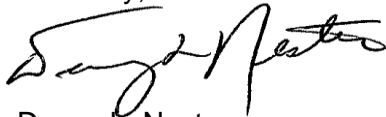
TEL 719-385-5991 • FAX 719-385-5699 • HOTLINE 719-385-2387 • REPORT WEBSITE – WWW.CITYAUDITOR.ORG
107 North Nevada Avenue, Suite 200 • P.O. Box 1575, Mail Code 1542 • Colorado Springs, CO 80901-1575

As a reminder, the objective of this audit was to determine whether the terms of the Concession Agreement were being followed and amounts due the Colorado Springs Airport were properly calculated and paid in a timely manner. While we conclude that SSP America made great strides to correct deficiencies identified during the audit, because of the seriousness of the deficiencies, we are not able to conclude the terms of the agreement were consistently followed nor that the amounts due the Airport were consistently calculated properly and paid in a timely manner. However, because of improvements SSP America made during our audit, and, if they will implement the Management Actions identified in their responses to the findings published in this report, we believe all our concerns will be mitigated.

It is our intent to perform a follow-up audit of the Concession agreement in 2011, testing data from, and controls in place, in 2010.

As always, please let me know if you have any questions.

Sincerely,



Denny L. Nester
Interim City Auditor

Cc: Penelope Culbreth-Graft, DPA, City Manager
Mark Earle, Director of Aviation
Gisela Shanahan, Assistant Director of Aviation
John Faulkner, Assistant Director of Aviation
Gary Mancuso, Airport Properties Administrator

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Abbreviations and Acronyms used in this Report

MAG	Minimum Annual Guarantee
POS	Point of Sale

Introduction

AUTHORIZATION

We performed an audit of the concessions agreement between the Colorado Springs Airport (Airport) and Creative Host Services, Inc. which was later acquired by SSP America. This audit was initiated by Airport management after having conducted a review of the concessionaire's cash handling policies that identified several areas of weakness. The Aviation Director requested that the City Auditor conduct an audit to determine whether the terms of the agreement were being followed. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, and 706.

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

ORGANIZATIONAL PLACEMENT

The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The audited entities in this audit are the Colorado Springs Airport and an external contractor (SSP America). The Director of Aviation at the Airport reports to the City Manager, who is also appointed by City Council.

SCOPE AND METHODOLOGY

The objective of this audit was to determine whether the terms of the Food and Beverage Concession Agreement were being followed and amounts due the Colorado Springs Airport were properly calculated and paid in a timely manner. Our audit included the period December 2004 through December 2008, with detailed test work on 2007 and 2008 conditions and data.

We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. Our audit included such tests of records and other supporting documentation as we deemed necessary in the circumstances. We reviewed the internal control

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structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

In December 2004, Creative Host Services, Inc. was awarded the food and beverage concession contract at the Colorado Springs Airport. Creative Host was a national company providing food services in the travel sector with almost 20 years of experience in the world of airport travel. It operated more than 170 concessions in 40 airports. In 2006, Creative Host was bought by SSP America, a multi-national food services company with over 60 years of experience in the travel food and beverage sector; and in 2008, SSP America began operating the concession under its own name. This purchase expanded SSP's global positioning and its knowledge of the travel industry

The term of the Agreement was for 10 years from the earlier of (a) the completion of the landside and airside food and beverage facilities, or (b) 150 days after the Possession Date. The Agreement states that SSP America shall pay the City each year, for the Primary Term of the Agreement, compensation equal to the greater of a Minimum Annual Guarantee (MAG) or a Percentage Privilege Fee, whichever is greater. The Percentage Privilege Fee is calculated as follows:

- 10% of gross receipts from sales of food and non-alcoholic beverage
- 14% of gross receipts from sales of alcoholic beverages

The monthly MAG for July 2007 – June 2008 was \$26,318.47. The monthly MAG for July 2008 – June 2009 is \$27,380.22.

The Airport administers the Concessions Agreement and ensures compliance with the operational and financial reporting terms of the Agreement. The Airport utilizes the City Auditor to conduct internal audits of the books and records of its concession tenants per Section 5.4(b) of the Agreement. These periodic audits are conducted to determine the concessionaire's compliance with appropriate revenue reporting procedures and adequate internal cash controls. Due to the Airport's reliance on City centralized services such as audit services, the Airport does not inspect and review the internal business practices, books and records of its tenants as a normal course of action. These reviews are accomplished through periodic audits conducted by the City Auditor.

AUDIT HISTORY

In early 2006, Airport management conducted a comprehensive review of the internal control policies of the original contractor, Creative Host. The Airport initiated the review after noting several discrepancies in Creative Host's reporting related to revenue management of its concession operation at the Colorado Springs Airport. The review identified several weaknesses in Creative Host's cash handling procedures and also noted errors in daily deposit reports. The Aviation Director alerted City management and requested a full audit be conducted by the City Auditor.

In response to the Airport's request, the City Auditor initiated an audit of Creative Host. The audit was conducted in two phases. The first phase was initiated when Creative Host was the primary operator of the concession agreement and included the months of December 2004

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through September 2007. During this phase, we identified nine areas of concern. The concerns were brought to the attention of SSP America, which had since bought Creative Host. The CEO of SSP America responded with a personal visit to the Airport to address the concerns raised in the audit and requested time to fix the identified problems. Because of the recent purchase of Creative Host by SSP America, the City Auditor's Office granted that request and agreed to allow SSP America time to address our concerns.

In 2009, we continued the audit to determine whether SSP America had addressed the concerns identified in our earlier audit work. For this phase, we sampled two weeks from 2008, June 20-26 and September 5-11. The reason for these dates being selected was because in early June, SSP America installed a new Point of Sale (POS) system at the Airport. This system was created and installed to address the concerns we identified in 2007. During this phase, we determined most of the concerns identified in the previous audit phase had been corrected. The table below list the concerns that were identified based on the review of the 2007 data and the current condition, as found during the review of the 2008 data. The improvements made by SSP America, mitigated seven of the nine concerns previously identified.

Concerns, as identified in Review of 2007 Data	Condition, as found in Review of 2008 Data
The Airport had not been provided a certified copy of construction costs	The Airport received a certified copy of the construction cost in January 2008.
Sales tax was being charged in excess of the appropriate rate	With the installation of the POS system, sales tax was being charged at the appropriate rate
The general ledger summary reports created by the bookkeeper from the consolidated cash report did not match actual sales and supporting documentation	With the installation of the POS system, the daily sales reports were computer generated and the consolidated cash report printed by the system matched the daily sales reports.
Documentation associated with discounts, allowances and coupons was not adequate	We found that the only discount SSP America was allowing was 20% to airport employees. These employees must sign the receipt, which was retained by the cashier and turned in with the deposit at the end of their shift.
Amounts turned in for deposit by the cashiers were rounded to the nearest whole dollar	We found deposits were not being rounded to the nearest whole dollar
All documentation requested for test work was not provided	All documentation requested for test work in 2008 was provided.

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Cash Handling procedures were too general	Cash Handling Procedures had been rewritten and strengthened by SSP America
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There were two concerns that were not mitigated prior to our review of the 2008 conditions and data. They are listed as findings 1 and 2 of this audit report.

OVERALL OPINION

As a reminder, the objective of this audit was to determine whether the terms of the Concession Agreement were being followed and amounts due the Colorado Springs Airport were properly calculated and paid in a timely manner. While we conclude that SSP America made great strides to correct deficiencies identified during the audit, because of the seriousness of the deficiencies, we are not able to conclude the terms of the agreement were consistently followed nor that the amounts due the Airport were consistently calculated properly and paid in a timely manner. However, because of improvements SSP America made during our audit, and, if they will implement the Management Actions identified in their responses to the findings published in this report, we believe all our concerns will be mitigated.

FOR THE FUTURE

It is our intent to perform a follow-up audit of the Concession agreement in 2011, testing data from, and controls in place, in 2010.

For the findings that follow, we have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.

Findings, Recommendations and Responses

1. No procedures were in place to ensure the cashier and manager were balancing the drawer under dual control.

In 2007, we tested the cashiers' turn-ins for six days. We tested 101 cashiers' deposits and found that 50.5% did not have the dual signatures (managers and cashiers). Without dual cash counting controls, there was an increased risk that fraudulent transactions could occur. Also, cash control policies may be difficult to enforce if the cashier has not verified the cash amount turned in.

In 2009, we tested 290 cashiers' deposits for June 20-26, 2008 and September 5-11, 2008. We found that 20% of the deposits in the June sample were not signed by the cashiers and 15% of the deposits in the September sample were not signed by the cashiers. All envelopes did have two signatures on them, however if the cashier did not verify the cash turned in, then the cash handling policies were not enforced and it may be difficult to hold the cashier liable for any shortage that may have occurred in their drawer. We also observed on the cash deposit envelopes that it appeared the cashiers were not always the one filling them out. The Cash Handling Procedures state, "Each Associate's deposit and cash float must be counted and organized at the end of the shift. Associate completes Cash Envelope for deposit(s)." It also states, "Both Manager/Supervisor and associate must count and sign for the monies. Both parties must witness and sign the drop form."

Auditor's Recommendation:

We recommend SSP America's management ensure cash handling procedures are followed.

SSP America's Response:

SSP America has a written policy that calls for "Each Associate's deposit and cash float must be counted and organized at the end of the shift. Associates complete Cash Envelope for deposit(s)." "Both Manger/Supervisor and associate must count and sign for the monies. Both parties must witness and sign the drop form." This was referenced in your findings. We have an internal audit program that will audit for compliance to this and Mangers will be held accountable for not adhering to the above referenced policy. In addition we will now require that periodic spot checks will be completed by the Corporate Loss Prevention Department to ensure policy compliance. Also, I will have a conference call with the Management to ensure their commitment to this policy and obtain a signed copy of their acknowledgement.

Findings, Recommendations and Responses

2. Daily Cash Reports did not always agree to the cashiers' register tapes.

In 2007, we recreated six days of daily reports using the register tapes and daily cash turn-ins which identified two days with errors.

We started with each cashier's drawer and recorded the amount of sales reported per the register tape. We recalculated the sales tax to ensure that the appropriate amount was being charged. We then looked at each cashier's turn in and recorded the amount of credit card payments, vouchers received and pay outs. The difference was the amount of cash that should be turned in and deposited. We verified the amount reported to the Airport as Net Sales was the combined total of the cashiers' drawers.

- On June 19, 2007, the total net sales reported to the Airport agreed with our calculation. However, the amount of credit cards collected from our calculation was \$2,947.03 and the amount reported on the summary sheet was \$2,790.46, or a difference of \$156.57. It appeared one cashier's totals were not included. There was no explanation for the outage on the daily documentation or on the daily credit card report.
- On June 20, 2007, the total net sales reported to the Airport did not agree with our calculation. We calculated net sales to be \$9,458.50 and the amount reported to the Airport was \$6,869.04, or a difference of \$2,589.46. We also calculated the amount of cash due that should have been deposited as \$5,841.00. The amount that was actually deposited was \$4,441.60, or a difference of \$1,399.40. The reason for the discrepancy was not documented. We were unable to account for the cash difference.

In 2009, we recreated twelve days of daily reports using the cashiers' register tapes and daily cash turn-ins. We identified four days where the register receipt tapes did not match the daily reports.

- On June 23, 2008 it appeared that one cash envelope was not included with the bundle of cash register receipts we received from the SSP America.
- On June 24, 2008 it appeared that one of the registers did not account for \$12.98 of voids and this is the difference between the cash receipts and the daily cash reports.
- On September 10, 2008 it appeared that the cash receipts were accounting for \$2.31 more than what the daily cash report stated. We could not determine a reason.
- On September 11, 2008 it appeared the cash receipts were accounting for \$8.59 more than the daily cash report stated. We could not determine a reason.

Auditor's Recommendation:

We recommend SSP America research discrepancies to determine the cause and implement necessary controls to prevent their reoccurrence.

SSP America's Response:

SSP America has an internal policy that all variances must be researched, investigated and actioned. Occasionally POS equipment will fail not allowing instant access to monies taken. We will institute a new log for this location so that all of the variances and explanations are

Findings, Recommendations and Responses

recorded and available for inspection. I will have a conference call with the Management to ensure their commitment to this policy as well and obtain a signed copy of their acknowledgement.

Findings, Recommendations and Responses

3. Several internal control weaknesses were identified that reduced our confidence in the control environment.

During our test work we identified several internal control weaknesses. The internal control weaknesses we identified were:

- The Bookkeeper or the GM removed cash from deposits to cover Cash Paid Outs and would write over the amounts recorded by the cashiers on their deposit envelopes.
- In our June 20-26 sample we saw ten instances where a cashier was over/short more than \$5.00 and no exception report filed.
- We observed that when an exception report was filed, it was not signed by the employee acknowledging they were short/over and the explanation portion is filed out by the supervisor.
- During our test work we observed an instance where it appeared the bookkeeper or GM balanced a drawer by taking money from two other deposits.
- During our test work we found the math was incorrect on a deposit envelope. The manager should recalculate these numbers to ensure accuracy
- During our test work we found that an employee was \$150.00 short in her drawer for the day and was allowed to work the next day.

Since the Airport is paid a percentage of gross receipts, it is important the concessionaire establish and adhere to a strong internal control system to ensure gross receipts are properly reported.

Auditor's Recommendation:

We recommend that SSP America review their internal controls and fix any weaknesses they discover.

SSP America's Response:

SSP America has scheduled an internal audit and review of COS. We will identify and address any and all internal control gaps that are identified. We have changed our policy in regards to "Paid Outs" that they will now be processed exclusively through the POS system thus mitigating the control weak point. This will also afford better recordkeeping and validation